CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

May 16, 2011

The Investment Committee met on Monday, May 16, 2011 at the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:00 a.m. and the following members were present:

George Diehr, Chair
Henry Jones, Vice Chair
John Chiang
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Steve Coony and Pam Milliron
Priya Mathur
Louis F. Moret
Tony Oliveira
Ronald Yank, represented by Greg Beatty

Terry McGuire represented John Chiang

AGENDA ITEM 2 – APPROVAL OF APRIL 2011 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the April 11, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 3 – APRIL 2011 POLICY SUBCOMMITTEE REPORT

Subcommittee Chair Jelincic reported on the April 11, 2011 Policy Subcommittee meeting.

The Subcommittee deliberated upon revisions to policies reflecting asset allocation targets and ranges approved by the Investment Committee in December 2010.

There was discussion regarding the pros and cons of transaction limit waivers in the Real Estate policy during the 5-7 year implementation period for the Real Estate Strategic Plan. The discussion included issues regarding:

- Waiver to certain transaction limits
- Timeliness of Board notification of such instances
- Report format for notification
- Concurring prudent person opinion on the merits of the transaction

The Chair directed staff to revise the Real Estate Program component of the Real Assets Policy for consideration at the June Investment Committee meeting.

On **MOTION** by the Subcommittee, the Investment Committee approved the following policies, effective July 1, 2011:

- Adoption of the Liquidity Program Policy
- Revision to the Asset Allocation Strategy Policy
- Revision to the Benchmarks Policy
- Adoption of the Inflation Assets Policy and its components Commodities Program and Inflation-Linked Bond Program
- Repeal of the Inflation-Linked Asset Class (ILAC) Policy
- Adoption of the Real Assets Policy and its components Infrastructure Program and Forestland Program
- Repeal of the Real Estate Program Policy

The Subcommittee discussed, in compliance with best practice and industry standards, the repeal of the Policy for Directed Brokerage.

On **MOTION** by the Subcommittee, the Investment Committee approved repeal of the Policy for Directed Brokerage Arrangement.

The Subcommittee also approved the First Reading of the Policy on the Role of Private Asset Class Board Investment Consultants.

AGENDA ITEM 4a – ASSET ALLOCATION IMPLEMENTATION, Interim Asset Allocation Targets

Farouki Majeed, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Consulting, was available to respond to questions from the Committee.

In December 2010, the Committee approved the new Asset Classification and Strategic Asset Allocation Policy Targets and Ranges. The Statement of Investment Policy for Asset Allocation incorporating these changes was approved by the Policy Subcommittee in April 2011. The new Policy Targets and Ranges will be effective July 1, 2011 for the purpose of implementation and performance measurement.

Staff presented the interim quarterly asset allocation targets which will allow for the prudent implementation of the new targets and proper benchmarking of the Total Fund Returns in this period.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the quarterly interim policy targets for implementation of the new Strategic Asset Allocation and calculation of Total Fund Policy Benchmark as presented in the following table:

Interim Targets – FY 2011-12 Effective 7/1/11

	20	11	2012				
Asset Class	Q3	Q4	Q1	Q2	Q3	Q4	New Policy
Global Equity	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%
AIM	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Growth	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%
Income (GFI)	18.0%	17.0%	17.0%	17.0%	16.0%	16.0%	16.0%
Infrastructure/							
Forestland	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%
Real Estate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Real Assets	12.0%	12.0%	12.0%	12.0%	13.0%	13.0%	13.0%
Inflation	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Liquidity*	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

^{*}Asset Class currently identified as "Cash" to be known as "Liquidity" effective 7/1/11

AGENDA ITEM 4b(1) – ASSET ALLOCATION IMPLEMENTATION, Adoption of the Real Assets Delegation Resolution

Ted Eliopoulos, Senior Investment Officer; Christine Gogan, Portfolio Manager; and Mark Bullen, Investment Officer, presented the item. Andrew Junkin, Wilshire Consulting, and Paul Mouchakkaa, Pension Consulting Alliance, were available to respond to questions from the Committee.

In December 2010, the Committee approved an alternative Asset Classification as part of the overall Strategic Asset Allocation process. The reclassification called for the creation of a new Real Assets class comprised of the Real Estate Program, and the Infrastructure and Forestland Programs from the ILAC. In March 2011, the Committee approved a new Real Estate Strategic Plan. In Item 3 above, the Committee approved a single overarching Real Assets policy to govern the consolidated program.

Staff presented a proposed Delegation Resolution to consolidate delegated authority to the Chief Investment Officer and Senior Investment Officer-Real Assets for the Real Estate, Infrastructure, and Forestland Programs under one document and effectuate revision necessary to implement the new reclassification. The delegation will be effective July 1, 2011.

On **MOTION** by Mr. Oliveira, **SECONDED** and **CARRIED** to adopt the Delegation Resolution for Real Assets.

AGENDA ITEM 4b(2) – ASSET ALLOCATION IMPLEMENTATION, Revision of the Global Fixed Income Delegation Resolution

Curtis Ishii, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Consulting, was available to respond to questions from the Committee.

During the recent Strategic Asset Allocation process, the ILAC was dissected into four individual components. The Infrastructure and Forestland Programs were moved to the Real Estate Program. The other two components, Commodities and Inflation Linked Bonds, were moved to Global Fixed Income (GFI) and renamed Inflation Assets. To facilitate the movement in responsibilities for Inflation Assets to GFI, the GFI Delegation Resolution was modified. Policy references were updated and references to the new Liquidity Program policy were added.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the revised Global Fixed Income Delegation Resolution.

AGENDA ITEM 5 – LONG-TERM CARE INVESTMENT ANNUAL UPDATE AND STRATEGIC ASSET ALLOCATION

Geraldine Jimenez, Division Chief, and Ray Venner, Portfolio Manager, presented the item. Alan Milligan, Chief Actuary, and Andrew Junkin, Wilshire Consulting, were available to respond to questions from the Committee.

Staff provided an overview of the Long-Term Care Fund, including plan characteristics and effect on asset allocation, objectives and program characteristics, asset allocation considerations, alternative policy portfolios, merits of the recommended policy portfolios, and next steps.

Dave Elder, interested party, commented on possible efforts to reduce program premium rates.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to adopt Portfolio 4 as the Long-Term Care policy portfolio as presented in the following table:

Mr. Beatty voted no.

Long-Term Care Alternative Policy Portfolio

Long-Term Care Alternative Policy Portiono							
	Current						
	LTC	P4					
Forecast Annual Nominal Return (Through fiscal year 202							
Compound	6.38%	6.25%					
Volatility	9.32%	8.63%					
Average	6.79%	6.60%					
Sharpe Ratio	0.685	0.724					
Prob. Of annual loss	23.3%	22.2%					
Prob. of annual Loss > 10%	3.6%	2.7%					
Allocation							
US I.L. Bonds (TIPS)	7%	15%					
US Nominal Bonds	30%	30%					
US High Yield Bonds	10%	0%					
Global Equity	48%	44%					
Global Public Real Estate	5%	8%					
Commodities	0%	3%					
Global Equity + REITs							
Capital Allocation	53%	52%					
Risk Allocation	85%	88%					

AGENDA ITEM 6 – LEGISLATION

Danny Brown, Chief of Governmental Affairs, presented the following items:

AGENDA ITEM 6a – SB 294 (Price) – Emerging Investment Managers: Five Year Plan

This bill would require CalPERS and CalSTRS to provide a five-year strategic plan by August 1, 2012, to expand the participation of emerging investment managers across all asset classes. It also requires each System to report on their progress annually until January 1, 2018.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to support SB 294 (as amended 5/9/11).

AGENDA ITEM 6b – AB 17 (Davis) – Emerging Investment Managers and Brokerage Firms

This bill requires the CalPERS Board of Administration (Board) to annually report to the Legislature on the ethnicity and gender of external investment managers who manage retirement fund assets and external firms that provide brokerage services, as well as the ethnicity and gender for owners of these firms. It also requires the Board to develop and include in the report plans and strategies to increase the participation of emerging investment managers and emerging brokerage firms, as defined.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to oppose AB 17 (as amended 5/11/11), unless amended then support, once amended.

Mr. Beatty abstained.

AGENDA ITEM 6c – AB 1255 (Perez, V. Manuel) – Investments: Corporate Board Diversity Information

This bill recognizes diversity as an important business issue that enhances competitiveness and innovation, consistent with CalPERS efforts in this area.

The bill requires the Secretary of State to post a link to the Internet web pages of either or both of CalPERS or CalSTRS, and specifically, to information about and external links to digital registries of potential qualified candidates for corporate boards.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to support AB 1255 (as amended 4/26/2011).

Mr. Beatty abstained.

AGENDA ITEM 6d – AB 1379 (Bradford) – Reports on California and Emerging Domestic Market Investments

The Legislature finds and declares that public pension fund investments represent billions of dollars of financing for California communities and that the State could adopt and implement more effective economic development policies with better information on fund investments in California and in emerging domestic markets.

Recognizing the significant reporting CalPERS already does in this area, this bill would encourage, but not mandate, that each State and local pension system with assets over \$4 billion to annually report to the Controller asset category, fair market value, and percentage of portfolio for all investments in California and in emerging domestic markets within the State. The report may also include an estimate of the number of jobs created and retained as a result of the System's investment activity.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt a neutral position on AB 1379 (as amended 3/14/2011).

Mr. Beatty abstained.

AGENDA ITEM 7 – PROGRAM UPDATES

There were no items to report for the following programs:

- Real Estate
- Inflation-Linked Asset Class (ILAC)
- Alternative Investments Management (AIM)
- Global Fixed Income
- Global Equity Corporate Governance
- Affiliate Investment Programs

AGENDA ITEM 8 - ACTIVITY REPORTS

The Committee accepted the following activity reports:

- a. Consolidated Investment Activity Report
- b. Chief Operating Investment Officer's Status Report

AGENDA ITEM 9 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. Draft agenda for June 13, 2011
- b. Rolling Annual Agenda Item Calendar

AGENDA ITEM 10 – PUBLIC COMMENT

There were no additional public comments.

The meeting recessed from 11:55 a.m. to 1:55 p.m.

AGENDA ITEM 7 - PROGRAM UPDATES (Continued), Global Equity

The Chair reported that in closed session the Committee approved to divest exposure to companies subject to divestment provisions of the Sudan and Iran Acts.

The meeting was adjourned at 1:55 p.m.

The next Investment Committee meeting is scheduled for June 13, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer